

Economic Conditions Overview and State Revenue Forecast for 2009 and 2010: A Report to the State Funding Board

By

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Shelby County Economic Sentiment

- We conduct and track a local survey of economic sentiment (monthly).**
- Overall theme of responses in October 2008 was conditions were negative but not as negative as September 2008.**
- Diffusion indices for general business conditions, sales, employment, and outlook for local economy relative to the national economy were all in the decidedly pessimistic range, though not as negative as the previous several months.**

Bright Spot:

- **Memphis retail, office, and industrial space markets remained stable even in this difficult economy.**
- **Retail vacancy rates, 9.5%, are lower than 10.1% at the beginning of the year.**
- **Memphis industrial space absorption (net absorption) was one of the highest ever for a quarter, and vacancies registered below 16% for the first time in several years.**
- **However, no new construction occurred in the industrial space market for the second consecutive quarter.**

- **Memphis home sales and prices continue to slide:**

Table 1. Home Sales, October 2008 and October 2007

	October 2008	October 2007	Percent Change
Total Home Sales	1,020	1,255	-18.7%
Median Sales Price	\$100,000	\$123,000	-18.6%
Average Sales Price	\$136,000	\$148,000	- 8.1%
Average Time on Market	112.0 days	98.8 days	+13.3%

Source: Memphis Area Association of REALTORS®.

General Business Conditions:

- The GBC index comparing business conditions in October 2008 with September 2008 was 40.3, up 5.6 points from its September month-over-month value. The six months forward-looking index was 48.3, indicating a majority of respondents feel general business conditions will be weaker six months from now.

Chart 1. General Business Conditions Monthly Index Values

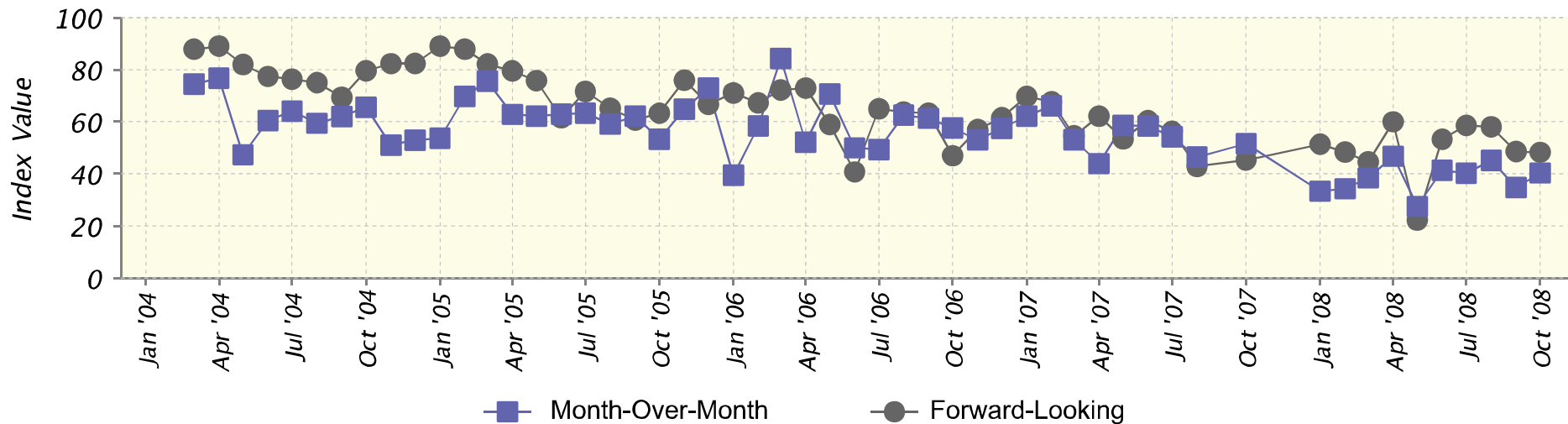
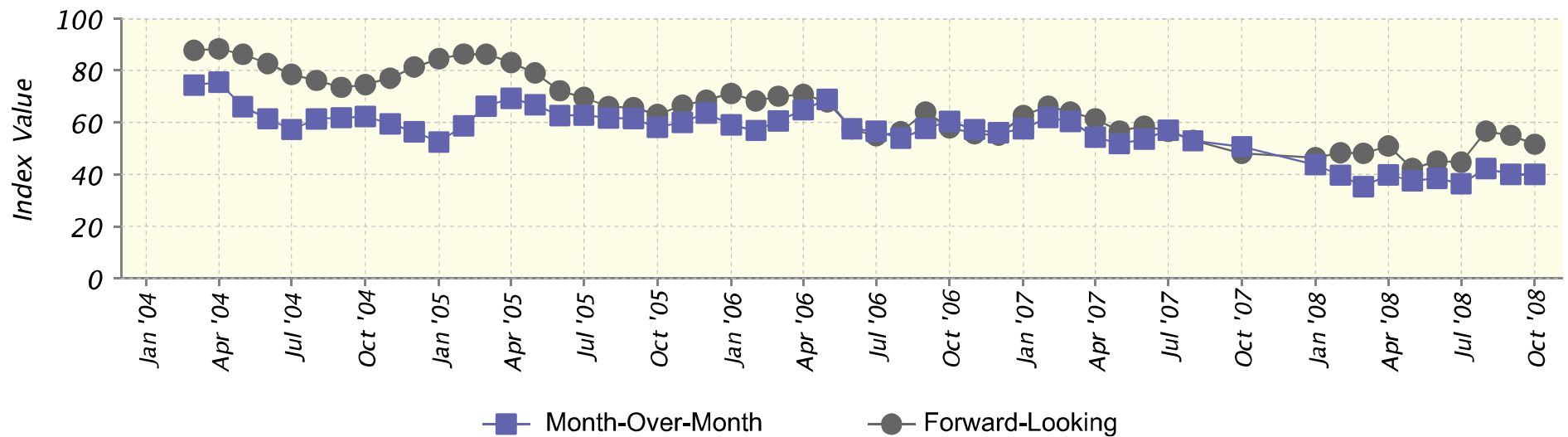


Chart 2. General Business Conditions Three Month Moving Average of Indices



Employment:

- The employment index comparing this October to September of 2008 was 41.7, an increase of 3.1 points from the September value. The employment outlook is below 50.0, indicating that a majority of participants reported that local employee count was decreasing.

Chart 3. Employment Monthly Index Values

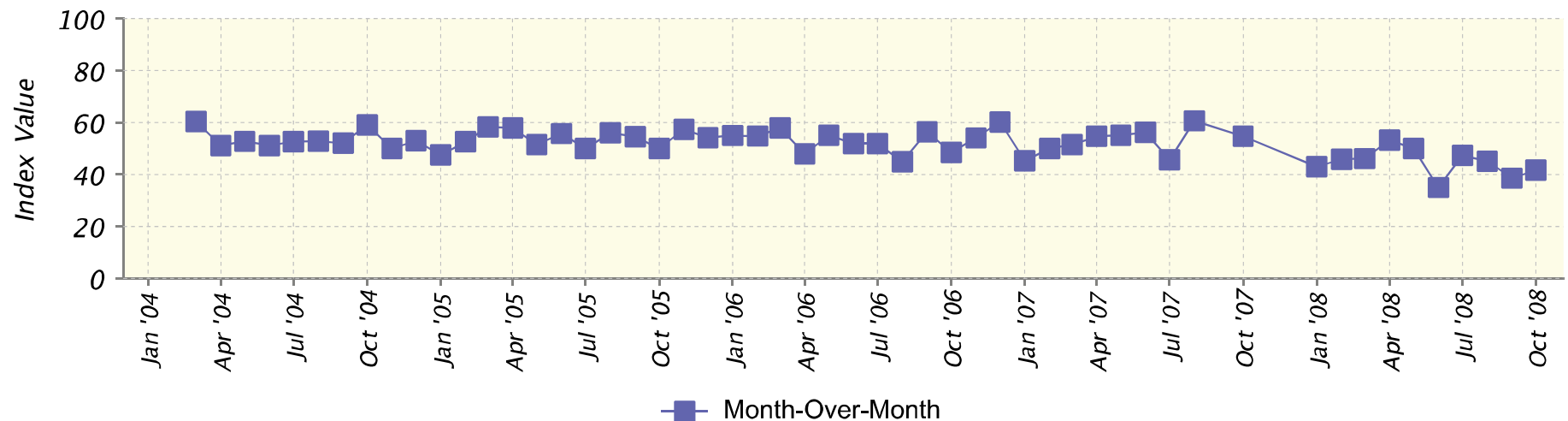


Chart 4. Employment Three Month Moving Average of Indices

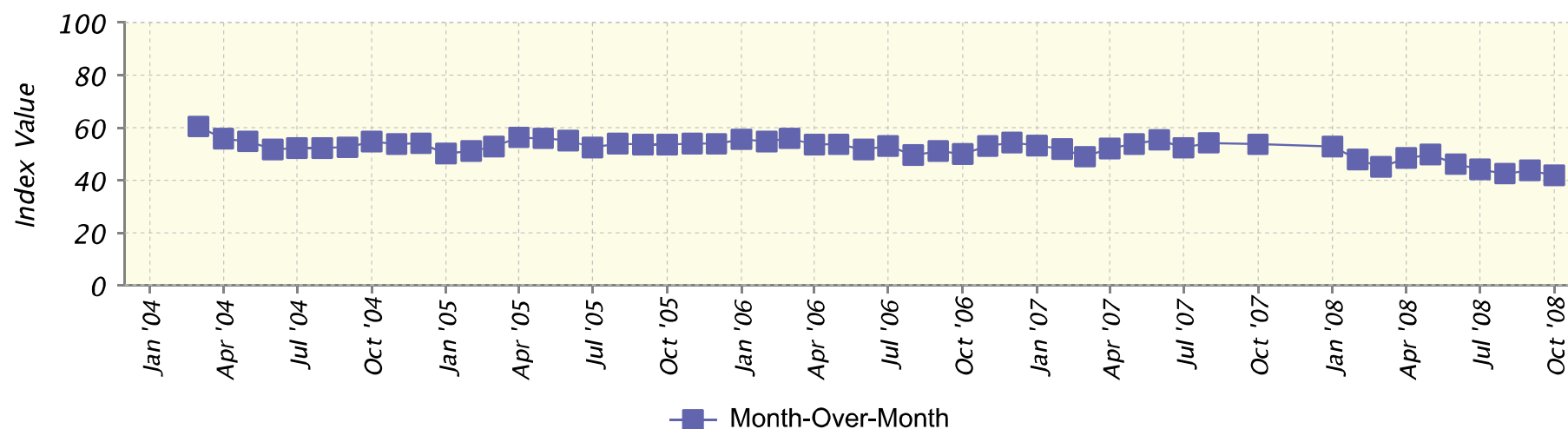
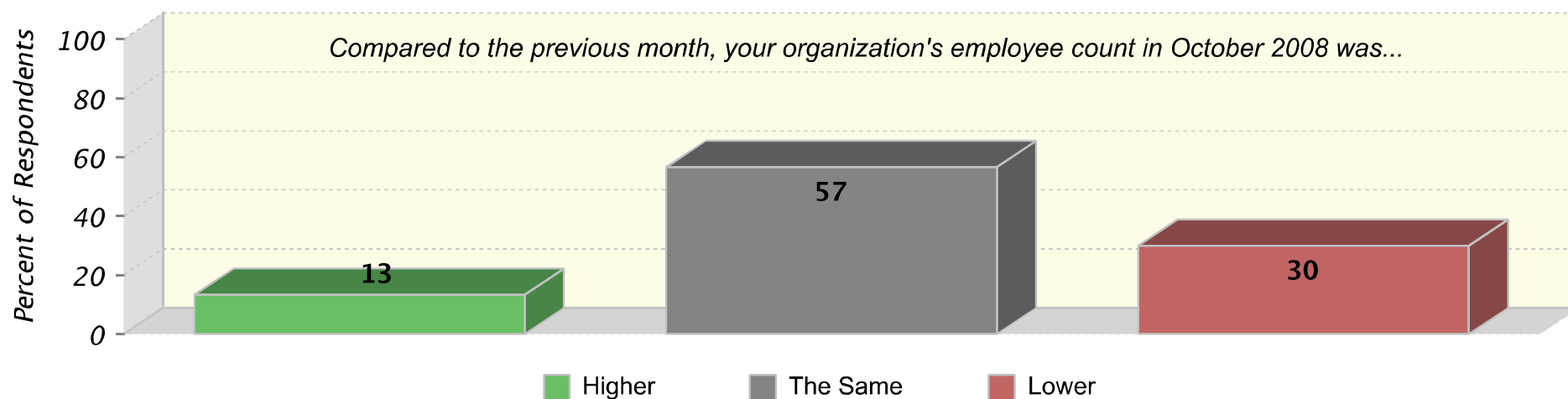


Chart 5. Employment Comparisons



Local Issues :

- **Survey participants were asked the question, “What are the economic issues that you consider the most important locally?”**

**Table 2. Local Issue Concerns
According to Respondents**

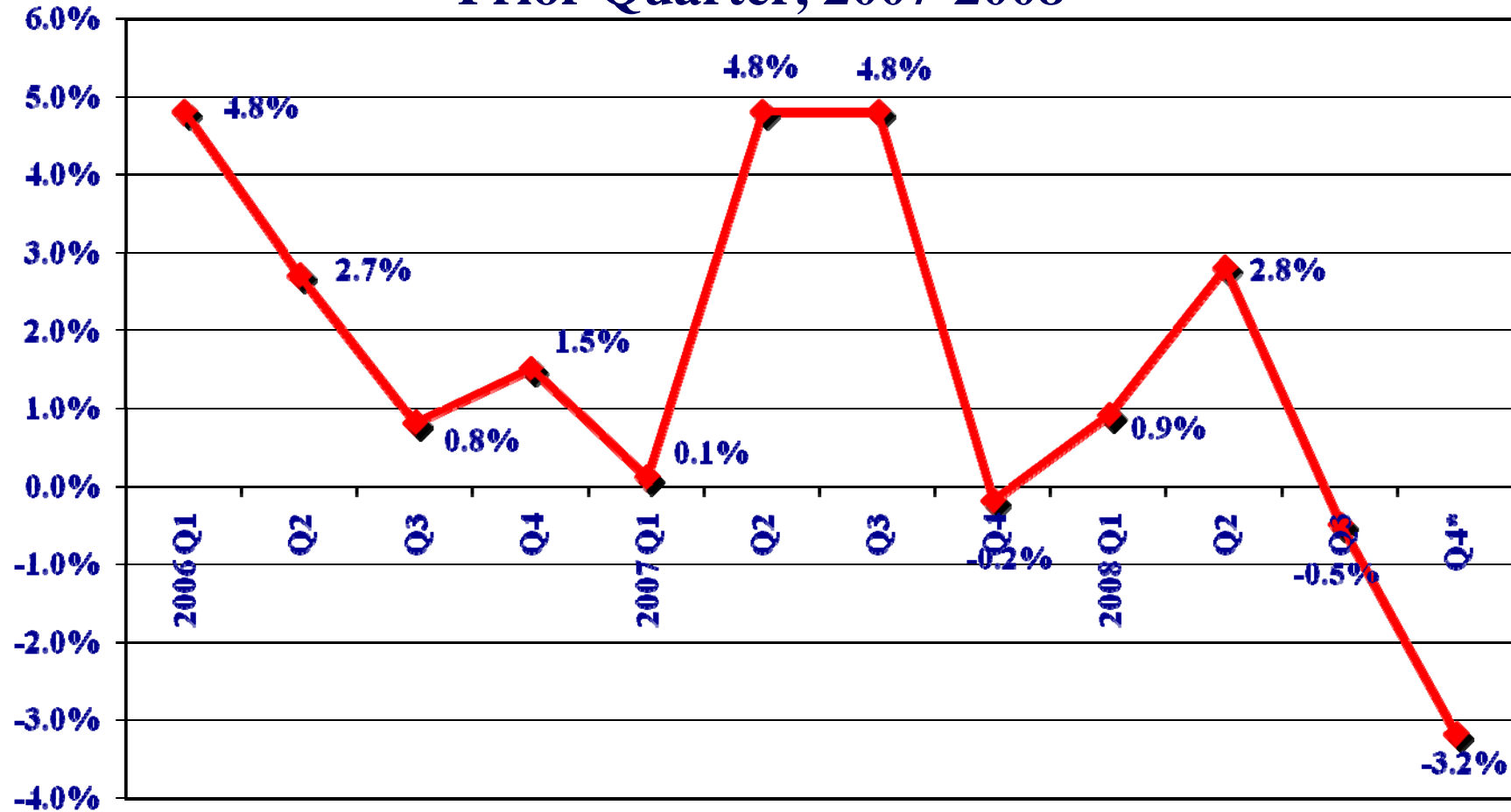
Category	Respondents
Employment	80.6%
Residential Housing Industry	64.5%
Energy Prices	45.2%
Stock Market Volatility	32.3%
Food Prices	25.8%
Inflation	22.6%
Interest Rate Policy	22.6%
Value of the Dollar	3.2%

- **The current financial crisis coupled with rising unemployment and falling consumer confidence will result in lower retail sales locally and nationally, increasing the probability of lower retail tax collections in the current fiscal year.**
- **Consumer confidence fell to an all-time low in September due to an increasingly pessimistic perception of economic conditions, stock market volatility, and housing/credit market woes.**
- **Most sectors of the economy are on the decline, with the notably strong exception of government consumption.**
- **Extreme fluctuations in the stock markets and a probable recession suggest a decrease in Hall Income Tax collections.**

- **Toyota's decision to produce the Prius model at the Tupelo plant instead of the Highlander SUV could strengthen the plant for the long run as consumers demand more fuel efficient vehicles.**
- **As a supplier of high-end steel, Nucor Steel's Memphis plant could see long-run benefit from both Toyota Tupelo and Nissan's Canton, Mississippi plant.**
- **Toyota Tupelo could also benefit Middle Tennessee auto parts suppliers and strengthen the state's auto industry in general.**

- **A declining economy coupled with the ailing, Big Three domestic automakers could spell trouble for Tennessee's Saturn plant. Further, declining auto sales will lead to reduced Motor Vehicle Title tax collections.**
- **Growth in Gross Domestic Product was negative in the 3rd quarter of 2008, down 0.5% and will be sharply lower in the 4th quarter.**
- **Corporate profits have fallen for four straight quarters and are expected to decline further in calendar year 2009. This is likely to impact Franchise and Excise taxes.**

Chart 6. Gross Domestic Product Percent Change Over Prior Quarter, 2007-2008



*Consensus Forecast – USA (November 10, 2008).
Note: data are seasonally adjusted at an annual rate.
Source: U.S. Bureau of Economic Analysis.

Unemployment Rates Are Rising

- **October Unemployment Rates:**

→ **U.S. = 6.5%, Tennessee = 7.0%, seasonally adjusted.**

→ **U.S. = 6.5%, Tennessee = 6.7%, not seasonally adjusted.**

→ **Memphis MSA = 7.3%, not seasonally adjusted.**

→ **City of Memphis = 8.3%, not seasonally adjusted.**

→ **Shelby County = 7.4%, not seasonally adjusted.**

Note: Local rates are for September.

Source: U.S. Bureau of Labor Statistics.

**Table 3. Shelby County and Memphis MSA Unemployment Rates,
Selected Years**

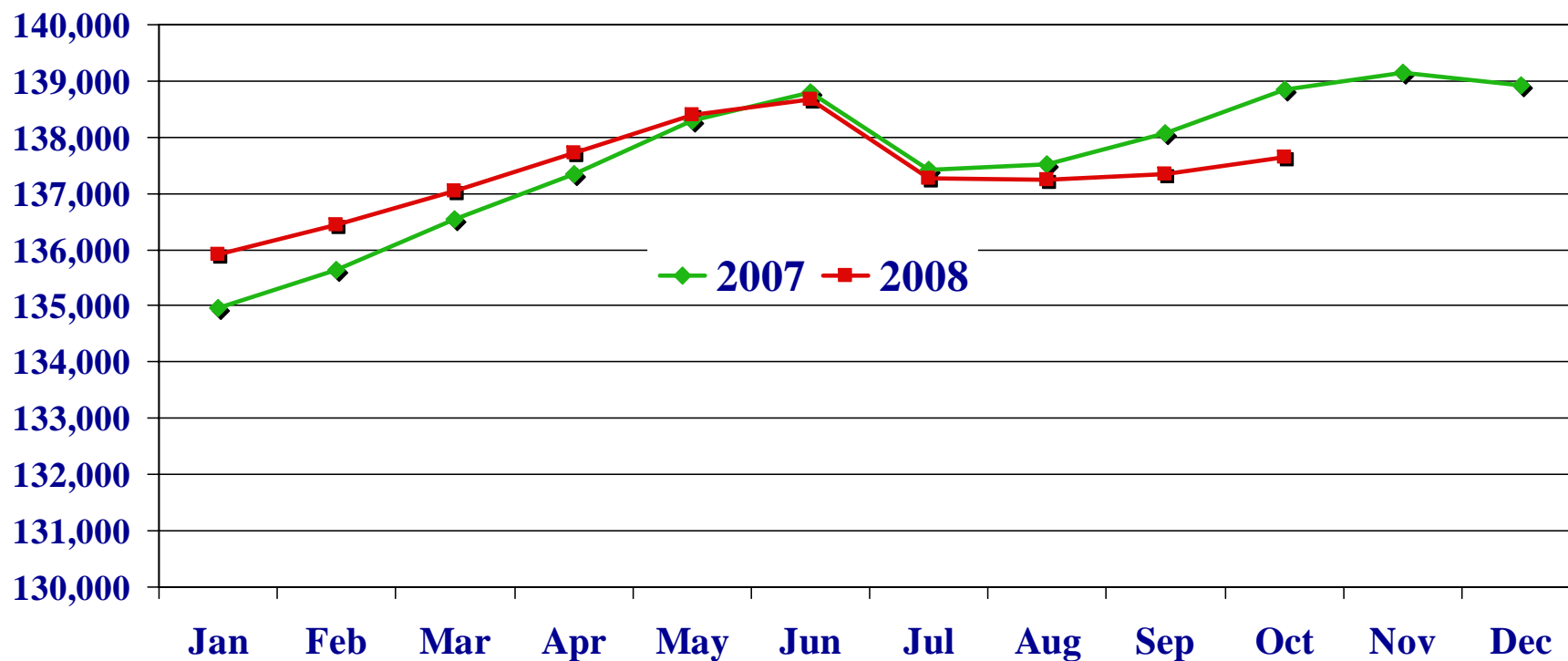
Shelby County

Date	Unemployment Rate
November 2003	7.1%
January 2005	7.1%
June 2005	7.3%
September 2008	7.4%

Memphis MSA

Date	Unemployment Rate
July 1975	8.3%
January 1980	11.3%
January 1986	7.8%

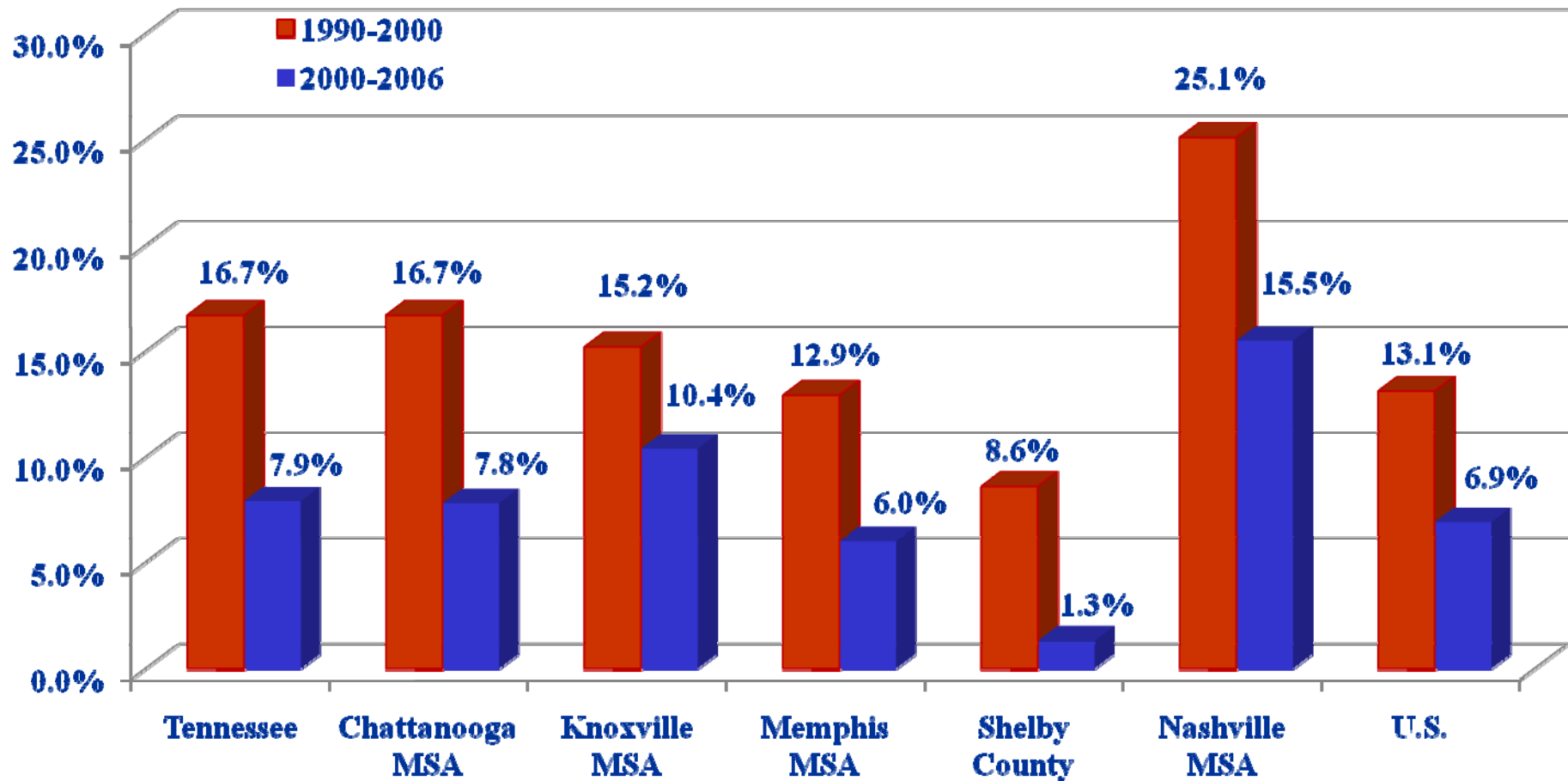
Chart 7. Total Annual U.S. Nonfarm Payroll Employment, 2007-2008 (000)



Source: U.S. Bureau of Labor Statistics (establishment based – NOT seasonally adjusted).

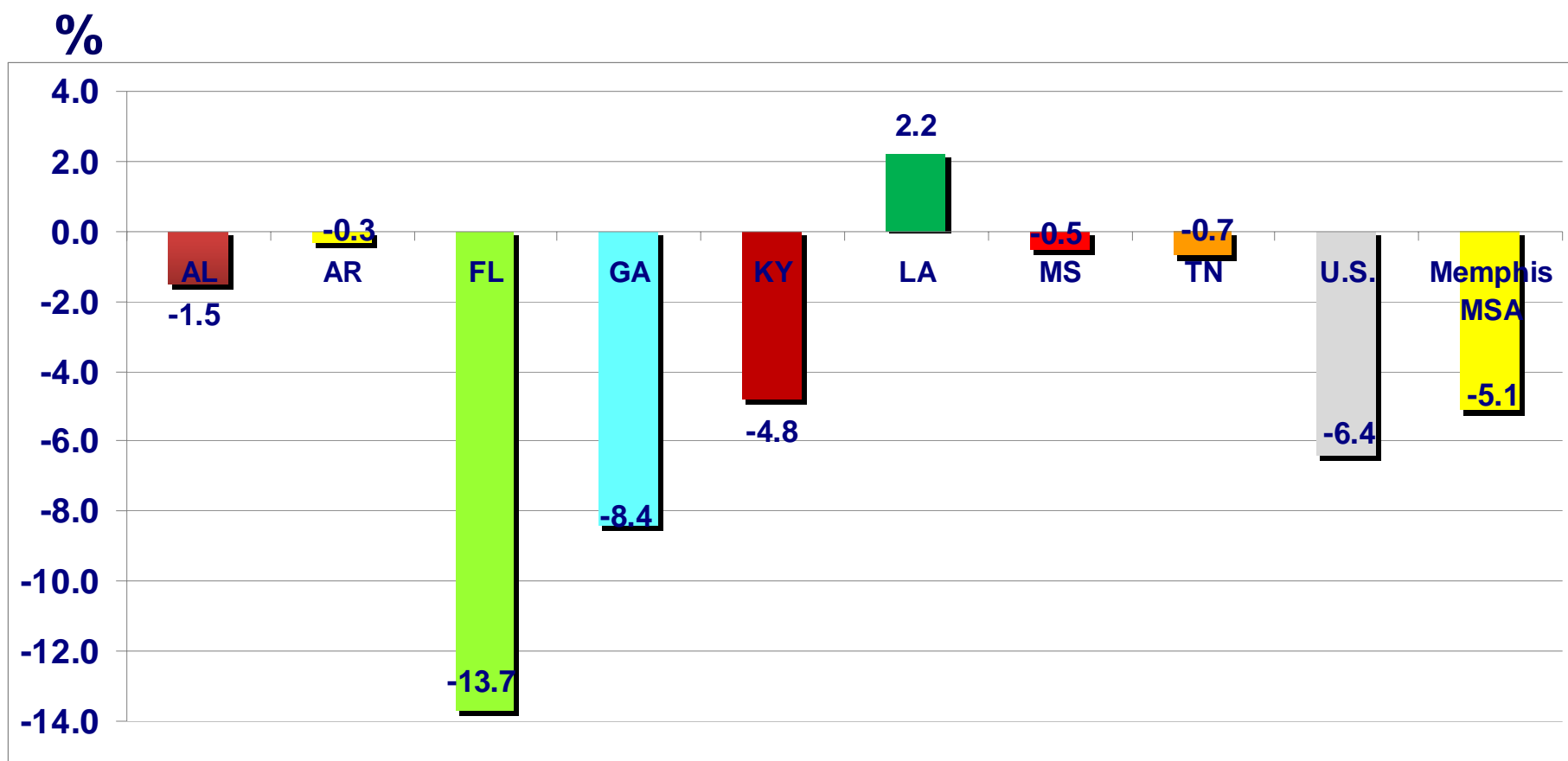
- **Residential development has come to a stop so that there will be no growth in the property tax base for local and county governments in the foreseeable future.**
- **A terrorist strike in the U.S. would have a strong negative impact on U.S. economy.**
- **Al Qaeda has signaled no let up in tensions with the U.S. for President-elect Obama.**

Chart 8. Population Growth, Selected Tennessee MSAs, 1990–2007



Source: U.S. Census Bureau.

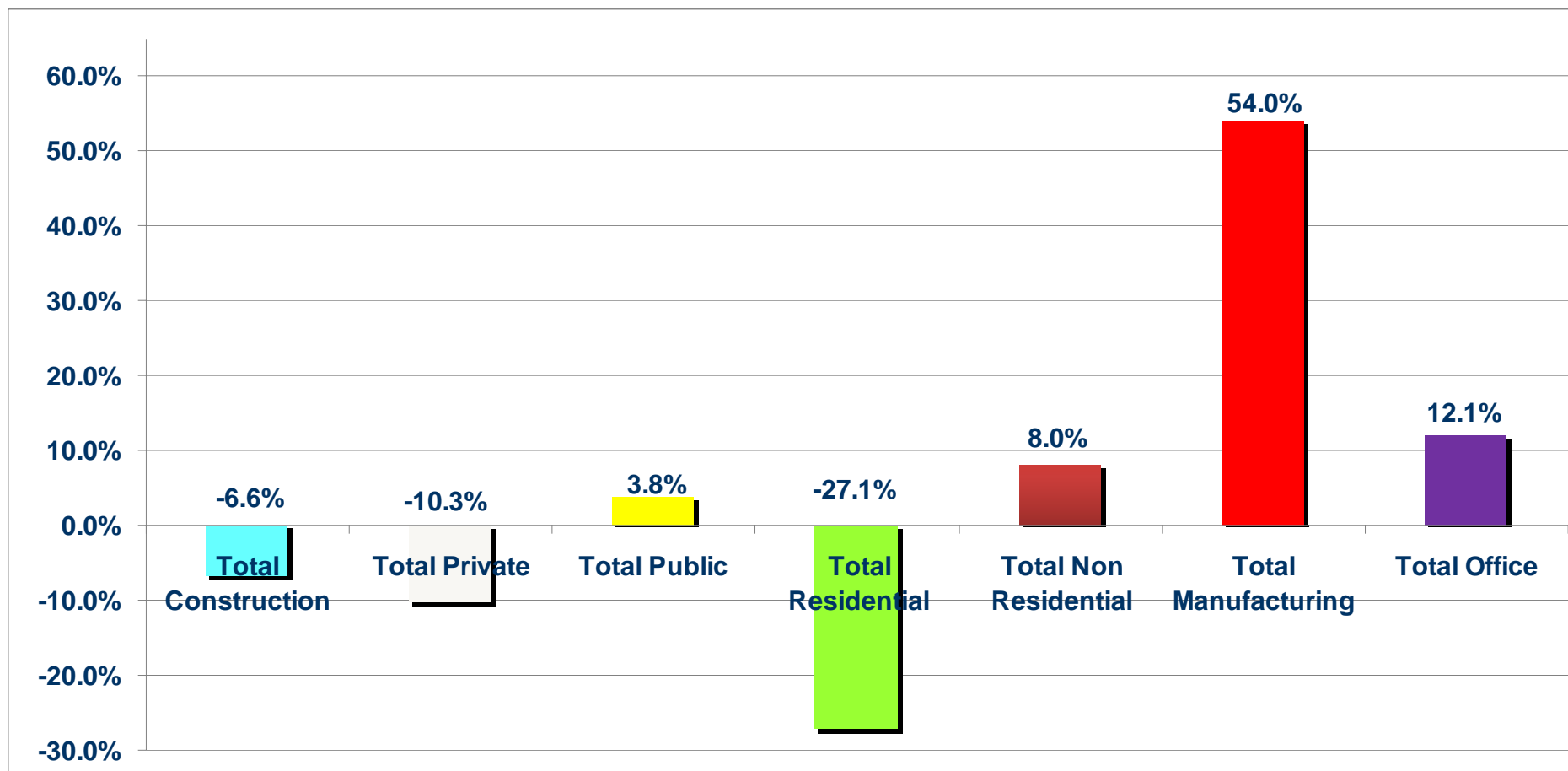
**Chart 9. Construction Employment, Percent Change,
October 2007 v. October 2008**



Note: TN and Memphis MSA data include mining employment.

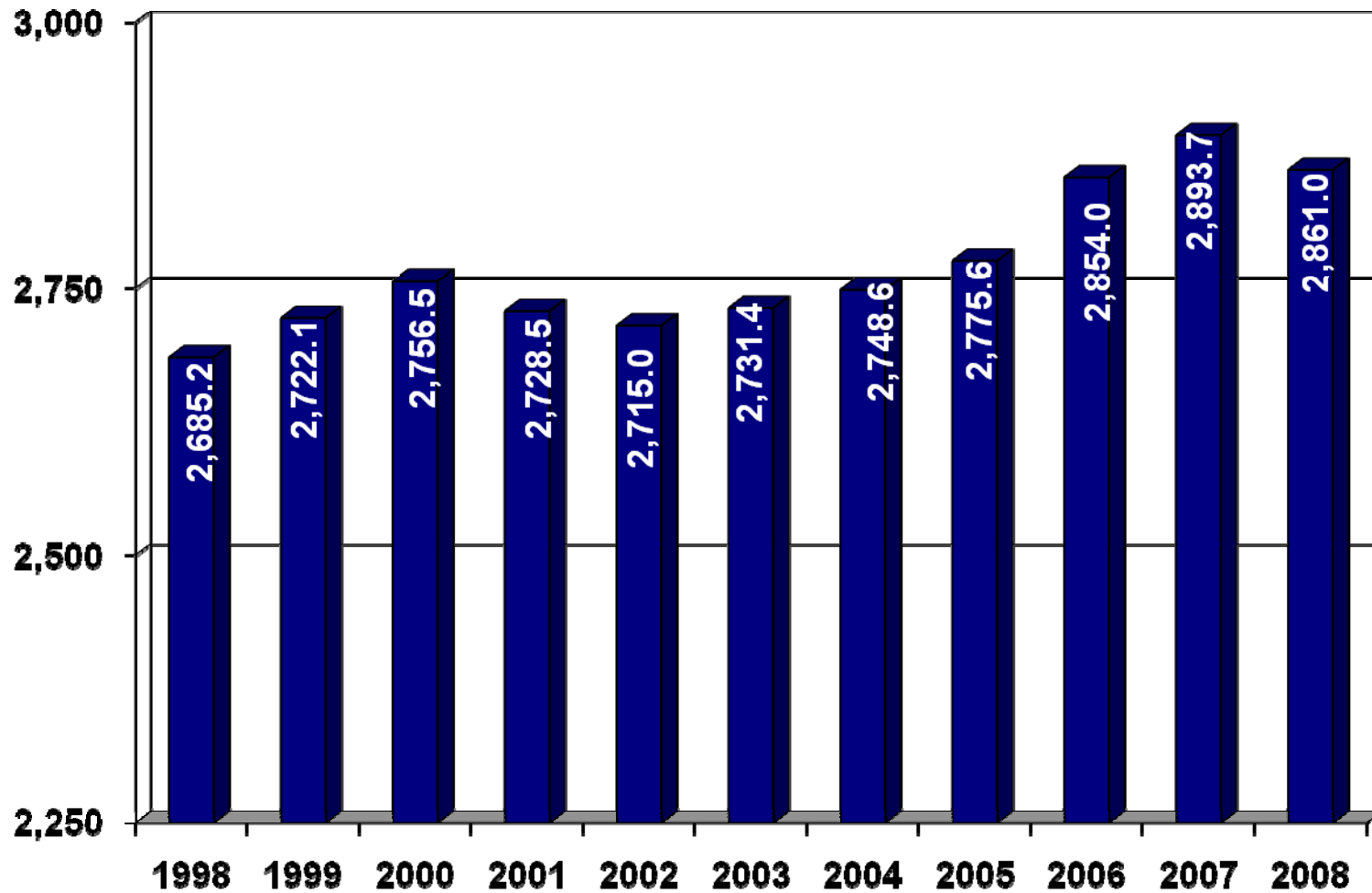
Source: U.S. Bureau of Labor Statistics.

**Chart 10. Value of Construction Put in Place,
Percent Change, September 2007 v. September 2008**



Source: U.S. Census Bureau.

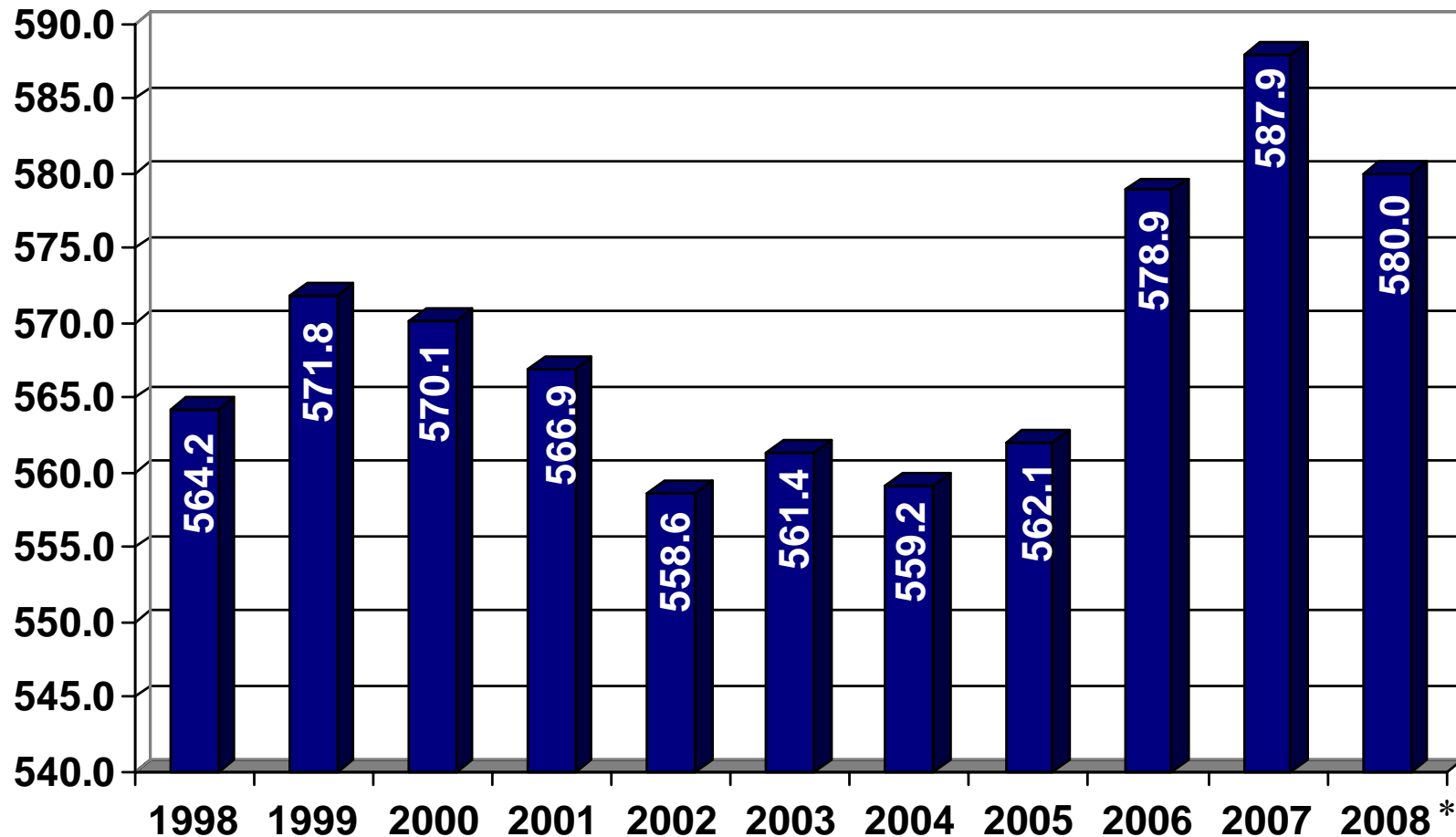
Chart 11. Employed Tennessee Residents, 1998-2008 (000)



*SBBER estimate.

Source: U.S. Bureau of Labor Statistics, Current Population Survey (residence based).

Chart 12. Employed Memphis MSA Residents, 1998–2008 (000)

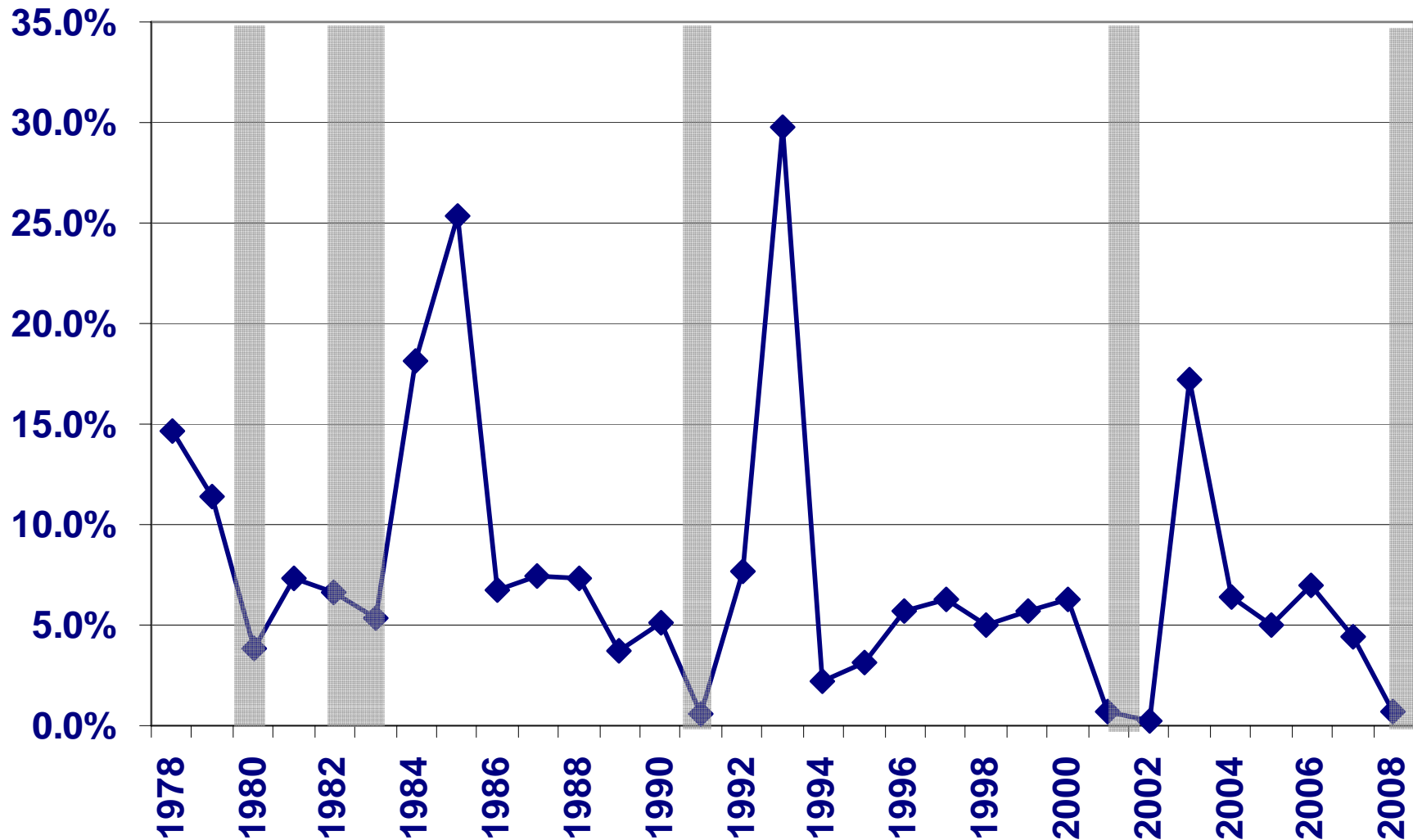


*SBBER estimate.

Source: U.S. Bureau of Labor Statistics, Current Population Survey (residence based).

Revenue Forecasts

**Chart 13. Tennessee Sales and Use Tax Collections,
Annual Percent Change 1978-2008**



**Chart 14. Tennessee Total Tax Collections,
Annual Percent Change, 1978-2008**

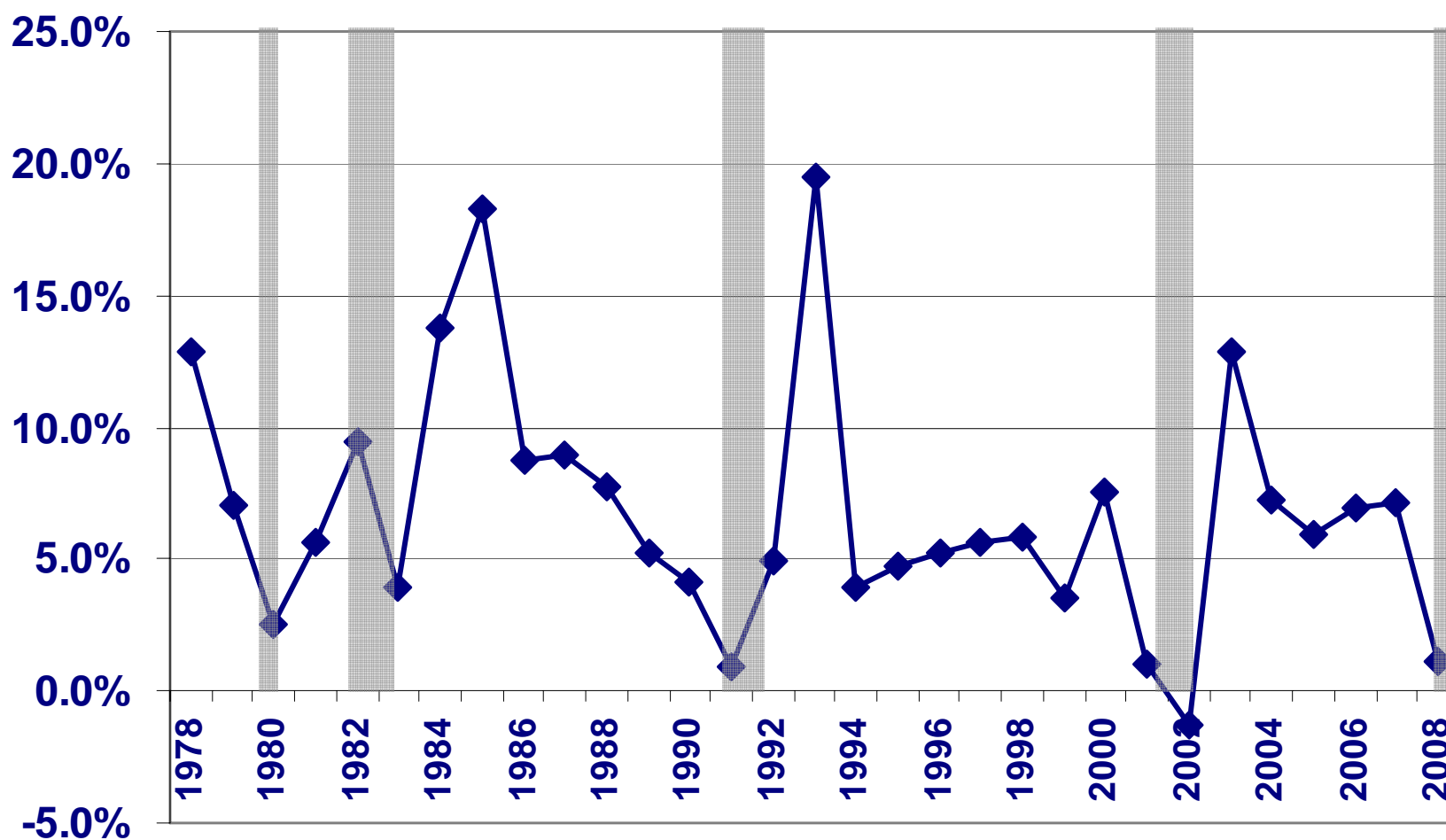


Table 4. Tennessee Accrual Year 2009 Revenue Forecast

Revenue Source	2008 Actual	2009 Forecast	% Change 09/08
Sales and Use	\$ 6,856,608,215	\$ 6,836,000,000	- 0.30
Excise	1,005,765,940	990,000,000	- 1.57
Franchise	644,639,195	600,000,000	- 6.92
Gasoline	616,809,835	602,000,000	- 2.40
Privilege	314,212,830	300,000,000	- 4.52
Gross Receipts	290,614,191	270,000,000	- 7.09
Motor Vehicle Registration	253,722,009	260,000,000	2.47
Income	292,064,401	277,500,000	- 4.99
Motor Vehicle Fuel	182,422,928	170,000,000	- 6.81
Tobacco	287,895,202	290,000,000	0.73
Business	137,568,816	140,000,000	1.77
Inheritance, Gift & Estate	113,784,309	100,000,000	-12.11
Petroleum Special Tax	65,093,268	61,700,000	- 5.21
Mixed Drinks	54,939,260	56,000,000	1.93
Alcoholic Beverage	43,555,717	44,000,000	1.02
Beer	18,774,381	18,700,000	- 0.40
Motor Vehicle Title	11,393,071	11,300,000	- 0.82
Coin Amusement	252,062	250,000	- 0.82
Combined Severance	2,502,264	3,000,000	19.89
Total	\$11,194,513,647	\$11,050,000,000	- 1.29

Note: Total forecast is a forecast of the total and NOT the sum of individual forecasts. Unauthorized substances are included within the forecast of the total.

Table 5. Tennessee Accrual Year 2010 Revenue Forecast

Revenue Source	2009 Forecast	2010 Forecast	% Change 10/09
Sales and Use	\$ 6,836,000,000	\$ 6,900,000,000	0.94
Excise	990,000,000	995,000,000	0.51
Franchise	600,000,000	628,100,000	4.68
Gasoline	602,000,000	625,000,000	3.82
Privilege	300,000,000	320,000,000	6.67
Gross Receipts	270,000,000	270,000,000	0.00
Motor Vehicle Registration	260,000,000	267,000,000	2.69
Income	277,500,000	290,000,000	4.50
Motor Vehicle Fuel	170,000,000	174,300,000	2.53
Tobacco	290,000,000	292,800,000	0.97
Business	140,000,000	142,300,000	1.64
Inheritance, Gift & Estate	100,000,000	101,000,000	1.00
Petroleum Special Tax	61,700,000	62,200,000	0.81
Mixed Drinks	56,000,000	58,900,000	5.18
Alcoholic Beverage	44,000,000	45,000,000	2.27
Beer	18,700,000	19,100,000	2.14
Motor Vehicle Title	11,300,000	11,500,000	1.77
Coin Amusement	250,000	300,000	20.00
Combined Severance	3,000,000	3,022,000	0.73
Total	\$11,050,000,000	\$11,210,000,000	1.45

Note: Total forecast is a forecast of the total and NOT the sum of individual forecasts. Unauthorized substances are included within the forecast of the total.

Table 6. Tennessee Accrual Year 2009 Revenue Forecast Interval

Revenue Source	25% Lower Bound	2009 Forecast	25% Upper Bound
Sales and Use	\$ 6,800,921,078	\$ 6,836,000,000	\$ 6,871,078,922
Excise	956,721,145	990,000,000	1,023,278,855
Franchise	582,418,937	600,000,000	617,581,063
Gasoline	594,121,546	602,000,000	609,878,454
Privilege	292,326,928	300,000,000	307,673,072
Gross Receipts	264,577,556	270,000,000	275,422,444
Motor Vehicle Registration	256,279,999	260,000,000	263,720,001
Income	272,438,442	277,500,000	282,561,558
Motor Vehicle Fuel	167,392,087	170,000,000	172,607,913
Tobacco	287,961,628	290,000,000	292,038,372
Business	138,304,264	140,000,000	141,695,736
Inheritance, Gift & Estate	93,939,100	100,000,000	106,060,900
Petroleum Special Tax	60,698,487	61,700,000	62,701,513
Mixed Drinks	55,468,231	56,000,000	56,531,769
Alcoholic Beverage	43,580,731	44,000,000	44,419,269
Beer	18,492,193	18,700,000	18,907,807
Motor Vehicle Title	11,132,985	11,300,000	11,467,015
Coin Amusement	250,000	250,000	250,000
Combined Severance	2,843,370	3,000,000	3,156,630
Total	\$10,942,071,233	\$11,050,000,000	\$11,157,928,767

Table 7. Tennessee Accrual Year 2010 Revenue Forecast Interval

Revenue Source	25% Lower Bound	2010 Forecast	25% Upper Bound
Sales and Use	\$ 6,869,955,221	\$ 6,900,000,000	\$ 6,930,044,779
Excise	967,720,843	995,000,000	1,022,279,157
Franchise	611,665,413	628,100,000	644,534,587
Gasoline	617,542,872	625,000,000	632,457,128
Privilege	313,033,343	320,000,000	326,966,657
Gross Receipts	264,955,060	270,000,000	275,044,940
Motor Vehicle Registration	263,261,492	267,000,000	270,738,508
Income	284,720,046	290,000,000	295,279,954
Tobacco	291,417,477	292,800,000	294,182,523
Motor Vehicle Fuel	172,060,673	174,300,000	176,539,327
Business	140,889,577	142,300,000	143,710,423
Inheritance, Gift & Estate	95,113,164	101,000,000	106,886,836
Petroleum Special Tax	61,291,077	62,200,000	63,108,923
Mixed Drinks	58,365,466	58,900,000	59,434,534
Alcoholic Beverage	44,572,243	45,000,000	45,427,757
Beer	18,892,070	19,100,000	19,307,930
Motor Vehicle Title	11,333,627	11,500,000	11,666,373
Coin Amusement	300,000	300,000	300,000
Combined Severance	2,879,671	3,022,000	3,164,329
Total	\$11,076,222,082	\$11,210,000,000	\$11,343,777,918

Table 8. Tennessee Accrual Year 2009 Lower Bound Impact

Revenue Source	2009 25% Lower Bound	2008 Actual	Percent Change
Sales and Use	\$ 6,800,921,078	\$ 6,856,608,215	- 0.81%
Excise	956,721,145	1,005,765,940	- 4.88%
Franchise	582,418,937	644,639,195	- 9.65%
Gasoline	594,121,546	616,809,835	- 3.68%
Privilege	292,326,928	314,212,830	- 6.97%
Gross Receipts	264,577,556	290,614,191	- 8.96%
Motor Vehicle Registration	256,279,999	253,722,009	1.01%
Income	272,438,442	292,064,401	- 6.72%
Motor Vehicle Fuel	167,392,087	182,422,928	- 8.24%
Tobacco	287,961,628	287,895,202	0.02%
Business	138,304,264	137,568,816	0.53%
Inheritance, Gift & Estate	93,939,100	113,784,309	-17.44%
Petroleum Special Tax	60,698,487	65,093,268	- 6.75%
Mixed Drinks	55,468,231	54,939,260	0.96%
Alcoholic Beverage	43,580,731	43,555,717	0.06%
Beer	18,492,193	18,774,381	- 1.50%
Motor Vehicle Title	11,132,985	11,393,071	- 2.28%
Coin Amusement	250,000	252,062	- 0.82%
Combined Severance	2,843,370	2,502,264	13.63%
Total	\$10,942,071,233	\$11,194,513,647	- 2.26%

Table 9. Tennessee Accrual Year 2009 Upper Bound Impact

Revenue Source	2009 25% Upper Bound	2008 Actual	Percent Change
Sales and Use	\$ 6,871,078,922	\$ 6,856,608,215	0.21%
Excise	1,023,278,855	1,005,765,940	1.74%
Franchise	617,581,063	644,639,195	- 4.20%
Gasoline	609,878,454	616,809,835	- 1.12%
Privilege	307,673,072	314,212,830	- 2.08%
Gross Receipts	275,422,444	290,614,191	- 5.23%
Motor Vehicle Registration	263,720,001	253,722,009	3.94%
Income	282,561,558	292,064,401	- 3.25%
Motor Vehicle Fuel	172,607,913	182,422,928	- 5.38%
Tobacco	292,038,372	287,895,202	1.44%
Business	141,695,736	137,568,816	3.00%
Inheritance, Gift & Estate	106,060,900	113,784,309	- 6.79%
Petroleum Special Tax	62,701,513	65,093,268	- 3.67%
Mixed Drinks	56,531,769	54,939,260	2.90%
Alcoholic Beverage	44,419,269	43,555,717	1.98%
Beer	18,907,807	18,774,381	0.71%
Motor Vehicle Title	11,467,015	11,393,071	0.65%
Coin Amusement	250,000	252,062	- 0.82%
Combined Severance	3,156,630	2,502,264	26.15%
Total	\$11,157,928,767	\$11,194,513,647	- 0.33%

Table 10. Tennessee Accrual Year 2010 Lower Bound Impact

Revenue Source	2010 25% Lower Bound	2009 Forecast	Percent Change
Sales and Use	\$ 6,869,955,221	\$ 6,836,000,000	0.50%
Excise	967,720,843	990,000,000	- 2.25%
Franchise	611,665,413	600,000,000	1.94%
Gasoline	617,542,872	602,000,000	2.58%
Privilege	313,033,343	300,000,000	4.34%
Gross Receipts	264,955,060	270,000,000	- 1.87%
Motor Vehicle Registration	263,261,492	260,000,000	1.25%
Income	284,720,046	277,500,000	2.60%
Motor Vehicle Fuel	172,060,673	170,000,000	1.21%
Tobacco	291,417,477	290,000,000	0.49%
Business	140,889,577	140,000,000	0.64%
Inheritance, Gift & Estate	95,113,164	100,000,000	- 4.89%
Petroleum Special Tax	61,291,077	61,700,000	- 0.66%
Mixed Drinks	58,365,466	56,000,000	4.22%
Alcoholic Beverage	44,572,243	44,000,000	1.30%
Beer	18,892,070	18,700,000	1.03%
Motor Vehicle Title	11,333,627	11,300,000	0.30%
Coin Amusement	300,000	250,000	20.00%
Combined Severance	2,879,671	3,000,000	- 4.01%
Total	\$11,076,222,082	\$11,050,000,000	0.24%

Table 11. Tennessee Accrual Year 2010 Upper Bound Impact

Revenue Source	2010 25% Upper Bound	2009 Forecast	Percent Change
Sales and Use	\$ 6,930,044,779	\$ 6,836,000,000	1.38%
Excise	1,022,279,157	990,000,000	3.26%
Franchise	644,534,587	600,000,000	7.42%
Gasoline	632,457,128	602,000,000	5.06%
Privilege	326,966,657	300,000,000	8.99%
Gross Receipts	275,044,940	270,000,000	1.87%
Motor Vehicle Registration	270,738,508	260,000,000	4.13%
Income	295,279,954	277,500,000	6.41%
Motor Vehicle Fuel	176,539,327	170,000,000	3.85%
Tobacco	294,182,523	290,000,000	1.44%
Business	143,710,423	140,000,000	2.65%
Inheritance, Gift & Estate	106,886,836	100,000,000	6.89%
Petroleum Special Tax	63,108,923	61,700,000	2.28%
Mixed Drinks	59,434,534	56,000,000	6.13%
Alcoholic Beverage	45,427,757	44,000,000	3.24%
Beer	19,307,930	18,700,000	3.25%
Motor Vehicle Title	11,666,373	11,300,000	3.24%
Coin Amusement	300,000	250,000	20.00%
Combined Severance	3,164,329	3,000,000	5.48%
Total	\$11,343,777,918	\$11,050,000,000	2.66%

Table 12. Summary of Total Revenue Forecasts by Accrual Year

Year	25% Lower Bound	Change Over Prior Year	Forecast/Actual	Change Over Prior Year	25% Upper Bound	Change Over Prior Year
2008			\$11,194,513,647	1.16%		
2009	\$10,942,071,233	-2.26%	\$11,050,000,000	-1.29%	\$11,157,928,767	-0.33%
2010	\$11,076,222,082	0.24%	\$11,210,000,000	1.45%	\$11,343,777,918	2.66%